

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

CHARLES SCHWAB & CO., INC.	:	CIVIL ACTION
	:	
v.	:	
	:	
SCOTT KARPIAK	:	NO. 06-4010
RBC DAIN RAUSCHER, INC.	:	

REPORT AND RECOMMENDATION

M. FAITH ANGELL
UNITED STATES MAGISTRATE JUDGE

December 6, 2006

Plaintiff Charles Schwab & Co. (“Schwab”) filed a complaint against Defendants Scott Karpiak (“Karpiak”) and RBC Dain Rauscher, Inc. (“RBC Dain”) for breach of Karpiak’s employment agreement with Schwab.

The matter is before the Court on Plaintiff’s motion for a preliminary injunction, to which Defendants have responded; the matter was referred to me for Report and Recommendation by Order of the Honorable Louis H. Pollak, dated November 14, 2006. After considering the testimony and the documentary evidence submitted, and for the reasons which follow, it is recommended that Plaintiff’s motion for a preliminary injunction be granted.

FINDINGS OF FACT

The parties have stipulated to the following findings of fact:

1. Schwab is a corporation organized and existing under the laws of the State of California with its principal place of business in San Francisco, California.
2. Karpiak is a Pennsylvania citizen and a former Private Client Consultant in Schwab’s Newtown, Pennsylvania, office, who began his employment with Schwab in August, 1999.
3. RBC Dain is a Minnesota corporation maintaining its principal place of business in the

State of Minnesota at Dain Rauscher Plaza, 60 South Sixth Street, Minneapolis, Minnesota 55402-4422.

4. Schwab and RBC Dain are broker-dealer members of the National Association of Securities Dealers, Inc. (“NASD”).

5. Karpiak is a “person associated with a member” of the NASD.

6. As a Schwab Private Client consultant, Karpiak serviced at least 128 Schwab clients whose accounts contained approximately \$178 million in assets under Schwab management at the time of his resignation from Schwab. At least fifteen (15) clients with \$20 million under management at Schwab have followed Karpiak to RBC Dain and transferred those assets to RBC Dain for management. During the course of his employment with Schwab, Karpiak came to know information about Schwab’s customers, including customer names, addresses, telephone numbers, financial objectives and preferences, and other account information.

7. Prior to his employment at Schwab, Karpiak had pre-existing relationships with at least three (3) clients he serviced at Schwab.

8. On the morning of April 28, 2006, Karpiak resigned from Schwab without providing advanced notice and immediately thereafter commenced employment with RBC Dain, one of Schwab’s competitors.

9. Schwab knew within a day of his resignation that Karpiak had begun to contact clients.

10. The complaint in this matter was filed on September 8, 2006.

11. On May 3, 2006, Katherine Nathan, Corporate Counsel for Schwab, sent a letter to Karpiak, a copy of which is attached as Exhibit “E” to Schwab’s Complaint [PI Hearing Exhibit 15].

12. On May 25, 2006, Brandon Hemley, Corporate Counsel for Schwab, sent another letter

to both Karpiak and in-house counsel for RBC Dain, a copy of which is attached as Exhibit “F” to Schwab’s Complaint [PI Hearing Exhibit 16].

13. Counsel for Schwab received a letter response from RBC Dain on June 1, 2006, a copy of which is attached as Exhibit “G” to Schwab’s Complaint [PI Hearing Exhibit 17].

14. Schwab sent another letter to counsel for RBC Dain on September 1, 2006, a copy of which is attached as Exhibit “H” to Schwab’s Complaint [PI Hearing Exhibit 18].

15. Contemporaneously with his resignation, Karpiak returned his Schwab-issued notebook computer, Blackberry device and Schwab cell phone.

16. Within two (2) weeks after Karpiak’s resignation from Schwab, Schwab began receiving account transfer forms from some customers serviced by Karpiak to transfer assets from Schwab to RBC Dain, and Schwab received additional account transfer forms during the period of May through August, prior to commencing the instant action.

17. One (1) or two (2) weeks prior to his resignation, Karpiak prepared a spreadsheet containing a list of the customers he serviced at Schwab, including the customers’ names, addresses, account titles, and whether the customer would need checking, margin accounts, powers of attorney, and whether they should be sent the mailing described below by regular or overnight mail (the “Spreadsheet”). The Spreadsheet contains information, at least some of which Karpiak learned during the course of his employment with Schwab.

18. Karpiak prepared the Spreadsheet at RBC Dain’s request. Karpiak testified that he prepared the Spreadsheet from home using his memory aided by information he had written down on note pads during his employment with Schwab, including information that he got in part from Schwab’s computer databases.

19. Karpiak prepared the Spreadsheet and provided it to RBC Dain without Schwab's knowledge or permission.

20. Karpiak gave the Spreadsheet to RBC Dain prior to resigning from Schwab. RBC Dain used the Spreadsheet to prepare letters to the clients identified in the Spreadsheet, along with account transfer forms.

21. In order to transfer from one brokerage firm to another, different types of customer accounts require different types of account transfer forms. Karpiak and RBC Dain used the information contained in the Spreadsheet to determine which types of account transfer forms to include in each customer's mailing based on the type of accounts they had at Schwab.

22. Karpiak and RBC Dain also used the information contained in the Spreadsheet to partially pre-complete the account transfer forms prior to mailing them to clients by filling in each customer's name, address and type of account.

23. Karpiak and RBC Dain also used the Spreadsheet to prepare a letter to each customer. The letters were prepared prior to Karpiak's resignation from Schwab. These letters were all prepared bearing the date of April 29, 2006. A true and correct representative copy of the letter, and a representative account transfer form, redacting the client's name, is attached as Exhibit "A" of the parties' Comprehensive Stipulation of Uncontested Facts. [*See also* PI Hearing Exhibit 2.]

24. After he began employment with RBC Dain, Karpiak called approximately ninety (90) customers that he serviced at Schwab using telephone numbers contained in his personal cellular telephone, which Karpiak testified was inadvertently destroyed in a washing machine before the above-entitled action was filed. Karpiak testified that he called the clients to advise them that he was no longer with Schwab and to thank them for working with him. He testified that he did not inform

clients that he was working for RBC Dain unless the customer asked, but he testified that it would be wonderful if they did.

25. Karpiak testified that some clients welcomed or invited him to call again. Karpiak testified that he called some clients more than once. Karpiak testified that “if a client said don’t call, I wouldn’t call again.”

26. Karpiak testified that he sent the mailing described above, complete with account transfer forms, to clients that requested additional information about RBC Dain or expressed an interest in transferring their accounts from Schwab to RBC Dain.

27. Karpiak intends to continue calling clients that he previously serviced at Schwab that have welcomed or invited him to call.

28. On or about July 22, 1999, Karpiak signed Schwab’s Confidentiality, Nonsolicitation and Assignment Agreement.

29. Within a day after Karpiak resigned, Schwab began contacting customers that Karpiak had serviced, but it did not provide such customers with Karpiak’s new contact information. Schwab did inform customers that asked that Karpiak was now employed by RBC Dain.

30. Erik Sermarini is an employee of Schwab. Sermarini left the following voicemail for a client:

{ clears throat } Paul, Good afternoon its Erik over at Charles Schwab never heard back from you aah with regards to our setting up uh a next review and uh low and behold it looks like you are transferring out to Scott which I must say I am uh pretty surprised not to at least have heard from you. Um and obviously very disappointed that you uh made that decision I’m interested to know um what um bag of goods he ah was trying to entice you with by going there because I know he has a very small and desperate practice at this stage of game so unfortunately um more than likely you are going to end up having

to transfer somewhere in ah six months or a year when he loses his job. So uh give me a call because we can make this all go away in a heartbeat if ah if um if I can uh speak to you before uh this this gets ah activated so give me a call uh 609-497-3609 or my cell is 267-980-6869. Thanks.

31. In April of 2002, Karpiak signed what purports to be a Confidentiality, Nonsolicitation and Assignment Agreement.

32. In March of 2004, Karpiak signed what purports to be a Confidentiality, Nonsolicitation and Assignment Agreement.

33. In February, 2006, Karpiak signed what purports to be a Confidentiality, Nonsolicitation and Assignment Agreement.

The Court made the following additional findings of fact:

34. According to Karpiak, if a customer asked him what he was doing at RBC Dain he would talk about the “value added” at RBC Dain, including the role he would play there, that he would have more autonomy; that he would have a smaller client base enabling him to pay greater attention to his clients; that RBC Dain has a superior wealth management group and a large fixed income department. Karpiak would also tell clients that Schwab would be reorganizing; that it was going to add 100 or more clients to each financial consultant’s workload, which in Karpiak’s view would dilute the financial consultant’s ability to work with clients. Karpiak told the clients that they deserved better. *See* N.T. 11/20/06, 54-55.

35. Karpiak resigned from Schwab without providing any advanced notice. *Id.* at 49.

36. Karpiak did not inform Schwab where he was going to work upon his resignation from Schwab. *Id.* at 50.

37. Karpiak called Client A¹ after resigning from Schwab. He has played golf with Client A several times since leaving Schwab. Client A has not transferred his accounts from Schwab to RBC Dain; however, Karpiak believes that Client A will eventually transfer his accounts from Schwab because Client A and Karpiak have a good relationship, and Client A trusts Karpiak. *Id.* at 60.

38. Karpiak admits that he called Client B, a couple who stated that they did not want to transfer their accounts because they had recently transferred other family accounts to Schwab. He states that prior to Client B informing him that they did not wish to come to RBC Dain, Karpiak sent them the pre-prepared “per your request” letter containing account transfer forms (PI Hearing Exhibit 2). *See* N.T. 11/20/06, 61, 125.

39. Karpiak admits that he called Client C who stated that he was undergoing medical treatment and did not want to transfer because he had too much going on. Karpiak states that he did not solicit Client C’s business. *Id.* at 61, 64, 67.

40. Karpiak admits that he called Client D who seemed like he did not want to talk to him. Karpiak does not recall sending Client D a “per your request” letter and transfer forms. *Id.* at 67-68.

41. Karpiak admits that he called Client E who stated that he was going to keep his account at Schwab and work locally with another broker. Nonetheless, Karpiak sent to Client E a “per your request” letter and transfer forms, at his request. *Id.* at 68-69, 126.

42. Karpiak admits that he called Client F who had just consolidated his accounts at Schwab and believed that it would be too cumbersome to transfer. Client F received a copy of the “per your

¹Schwab clients who were serviced by Karpiak shall be referred to by letter (i.e. Client A, B, C.) rather than by name.

request” letter and transfer forms; however, he has not transferred his accounts to RBC Dain. Kapriak has met with and talked to Client F, and Client F never specifically said that he would be staying with Schwab. *See* N.T. 11/20/06 at 69-70, 126.

43. Karpiak admits that he called Client G who indicated that he wanted to remain at Schwab. Client G was sent the “per your request” letter and transfer forms. Karpiak states Client G requested more information. *Id.* at 70-71, 127.

44. Karpiak admits that he called Client H who stated that he did not want to transfer his account to RBC Dain. Client H was sent the “per your request” letter and transfer forms. Karpiak states that Client H requested more information. *Id.*

45. Karpiak admits calling and sending the “per your request” letter and transfer forms to Client I. Karpiak contacted Client I multiple times after he resigned from Schwab to discuss RBC Dain and general market information. *Id.* at 71-74, 127-129.

46. Karpiak admits calling and meeting with Client J and sending him the “per your request” letter and transfer forms.. Karpiak has spoken to Client J several times and played golf with him since he left Schwab to continue his relationship with Client J. They spoke about what Karpiak could do for Client J at RBC Dain. *See* N.T. 11/20/06, 73-74, 129.

47. Karpiak called Client K after his resignation from Schwab, and he sent to Client K the “per your request” letter and transfer forms. He also invited Client K to dinner to extend the relationship and have Client K learn more about RBC Dain. *Id.* at 75, 129.

48. As a condition of his initial employment with Schwab in 1999, Karpiak signed a Confidentiality, Nonsolicitation and Assignment Agreement (the “1999 Agreement”). The 1999 Agreement includes as “confidential information”: “the identity of Schwab customers and

prospective customers including, but not limited to names, addresses, telephone numbers, and/or social security numbers, any account, personal, business, financial, and other information pertaining to such customers and prospective customers, and customer and prospective customer lists in any form”. PI Hearing Exhibit 4; N.T. 11/20/06, 80.

49. The Spreadsheet, which is approximately 85 pages in length, created by Karpiak contains: customer names, addresses, telephone numbers, and other account information, such as account titles, whether the customer would need checking, margin accounts, powers of attorney, and whether the client should be sent a letter with account transfer forms via regular or overnight mail (the “Schwab Customer List”). See PI Hearing Exhibit 1; N.T. 11/20/06, 80-81.

50. The 1999 Agreement states: “I understand and agree that Schwab owns all such confidential information and desires or is under legal obligations in the case of information known by others to protect its confidential and proprietary nature. I will not for any purpose, directly or indirectly disclose, reproduce, use, or disseminate in any manner during or after my employment with Schwab any confidential information”. PI Hearing Exhibit 4; N.T. 11/20/06, 81.

51. Confidential information was used by Karpiak to prepare the Spreadsheet; he reproduced that information; he disclosed that information; he disseminated that information. *Id.* at 81-82.

52. The 1999 Agreement further states: “I agree that I will promptly return to Schwab upon its request, or in any event immediately upon separation from my employment for any reason, all documents and materials that contain, refer, or relate in any way to any confidential information”. PI Hearing Exhibit 4; N.T. 11/20/06, 82.

53. Karpiak did not return the Spreadsheet to Schwab after he left. *Id.* at 82.

54. The 1999 Agreement states: “I further agree that for a period of eighteen (18) months

after my employment with Schwab ceases, I will not directly or indirectly on behalf of any third party solicit, induce, or attempt to solicit or induce any existing and/or prospective customers I serviced directly or indirectly or whose identity I learned during my employment with Schwab to divert, transfer, or otherwise take away business from Schwab”. PI Hearing Exhibit 4; N.T. 11/20/06, 82-83.

55. At the time of the Preliminary Injunction Hearing, Karpiak had been out of Schwab’s employ for about seven (7) months. *Id.* at 83.

56. Every customer listed on the Spreadsheet that Karpiak prepared is either a customer that he serviced or whose identity he learned during his employment with Schwab. *Id.* at 83.

57. In April, 2002, Karpiak was offered a new position at Schwab and became eligible for additional, beneficial forms of compensation, including an opportunity to participate in the incentive compensation plan for Private Client Consultants. Karpiak signed a letter dated April 23, 2002, offering this new position, which states in pertinent part: “To protect Schwab’s business relationships with its clients and all information about those relationships, this offer of employment, and your continued employment, is contingent upon your signing the enclosed Confidentiality, Nonsolicitation and Assignment Agreement no later than your start date.” Karpiak executed the 2002 Agreement. Again, in March, 2004, and in February, 2006, Karpiak signed additional Confidentiality, Nonsolicitation and Assignment Agreements. The 2002, 2004, and 2006 Agreements each contain provisions, similar to those in the 1999 Agreement that preclude Karpiak from using or disclosing customer names, addresses, telephone numbers, and account information and from soliciting Schwab’s clients. *See* N.T. 11/20/06, 106, 107; PI Hearing Exhibits 5, 6, 7, 8.

58. Karpiak disclosed to RBC Dain the existence of the 2006 Agreement. *See* N.T.

11/20/06, 85, 107.

59. Prior to Karpiak's departure from Schwab, he was told by RBC Dain's Branch Manager to "leave [Schwab] with clean hands". *Id.* at 86.

60. RBC Dain informed Karpiak that if he came to that company and was sued by Schwab, RBC Dain would represent him and indemnify him against any award that might be rendered. *Id.* at 86-87.

61. Subsequent to the discussions mentioned in ¶¶ 59 and 60, Karpiak provided RBC Dain with the Spreadsheet. *See* N.T. 11/20/06, 87.

62. Karpiak received from RBC Dain upon his employ with the company, a forgivable loan in the amount of \$125,000.00. *Id.* at 87.

63. When Schwab asked Karpiak to return any list he might have, it was informed by RBC Dain that Karpiak did not have any confidential or proprietary customer information. *See* N.T. 11/20/06, 101.

64. Karpiak believes that he told RBC Dain that he signed a confidentiality agreement when he became a Private Client Consultant on April 23, 2002. *Id.* at 103.

65. Karpiak has not returned any confidential information to Schwab. He also provided the account names and other account information and addresses to RBC Dain. *Id.* at 103, 107.

66. In addition to the Spreadsheet, Karpiak has some of that information in other documents at RBC Dain in account forms that he prepared and the draft mailings that he prepared. *Id.* at 104-105.

67. Karpiak has about twenty (20) clients in total at RBC Dain. Seventeen (17) of these clients came from Schwab. *See* N.T. 11/21/06, 4-5.

DISCUSSION

I. The Preliminary Injunction Standard

The Third Circuit has stated:

In considering a motion for preliminary injunctive relief, a court must carefully weigh four factors: (1) whether the movant has shown a reasonable probability of success on the merits; (2) whether the movant will be irreparably injured by denial of such relief; (3) whether granting preliminary relief will result in even greater harm to the nonmoving party; and (4) whether granting preliminary relief will be in the public interest. *SI Handling systems, Inc. v. Heisley*, 753 F.2d 1244, 1254 (3d Cir. 1985).

See also Ortho Pharmaceutical Corporation v. Amgen, Inc., 882 F.2d 806, 812-813 (3d Cir. 1989).

Though no one of the above four factors predominates, the absence of a sufficient showing as to any one of them may preclude preliminary injunctive relief. *See Sunrise Medical HHG, Inc. v. Airsep Corporation*, 95 F.Supp.2d 348, 434 (W.D.Pa. 2000).

Schwab argues that it has suffered, and continues to suffer, irreparable harm each day that Karpiak is permitted to use Schwab's confidential client information and solicit Schwab's clients in breach of his Agreements with Schwab. It believes a preliminary injunction is necessary because the harm to Schwab is ongoing and cannot be remedied absent an injunction compelling Defendants to cease and desist from their conduct. Thus, Schwab asserts that it is entitled to injunctive relief to enforce the non-disclosure and non-solicitation provisions of Karpiak's Agreements with Schwab and to stop Defendants' misappropriation and misuse of Schwab's trade secrets and unfair competition, and to remedy the additional tortious conduct of Defendants. *See Plaintiff's Memorandum in Support of its Motion for Preliminary Injunction.*²

²Hereinafter Plaintiff's Memo.

Defendants disagree and state that Schwab is not entitled to a preliminary injunction. They aver that Schwab is seeking to punish Karpiak for engaging in lawful business activity so that Schwab may gain an unfair competitive advantage over Karpiak. They state that Karpiak has not violated the provisions of his Agreements with Schwab; he did not take any confidential information and records when he left Schwab's employ, and Schwab's claims of irreparable harm are weakened by its delay in seeking injunctive relief. *See* Defendants' Memorandum in Opposition to Plaintiff's Motion for Preliminary Injunction³ at 4.

II. Analysis

A. Likelihood of Success on the Merits

1. Enforceability of the Agreements

At issue are the Agreements between Schwab and Karpiak by which Karpiak agreed to abide during and after his employment with Schwab. The 1999 Agreement⁴ states in pertinent part:

2. . . . I will not, for any purpose, directly or indirectly, disclose, reproduce, use or disseminate in any manner during or after my employment with Schwab, any Confidential Information⁵ unless: (a)

³Hereinafter Defendants' Memo in Opposition.

⁴Karpiak renewed his obligations to Schwab by signing the 2002, 2004, and 2006 Agreements. Each Agreement contains provisions that preclude Karpiak from using or disclosing Schwab's confidential customer information, including customer names, addresses, telephone numbers, and account information. Additionally, all the Agreements contain a provision precluding Karpiak from soliciting or inducing, or attempting to solicit or induce Schwab's customers to transfer their accounts from Schwab. *See* PI Hearing Exhibits 6, 7, 8.

⁵"Confidential Information" includes, but is not limited to:

- a. trade secrets, information about products and services (past, current or future), know-how, techniques, computer passwords, computer software designs, hardware configurations, policies and procedures, and research projects;
- b. market, financial, trade, and sales information and data, financial models or formulae, business plans, financial and business forecasts and estimates, and information about costs and profits;
- c. the identities of Schwab customers and prospective customers (including but not limited to, names,

such disclosure is required in the ordinary course of my duties at Schwab and necessary for me to perform my duties; or (b) I have received advance written consent from an authorized officer of Schwab. I will promptly notify Schwab if I become aware of or suspect any unauthorized (whether intentional or accidental) use or disclosure of Confidential Information.

3. I will promptly disclose in confidence to Schwab all inventions, improvements, designs, original works of authorship, formulas, processes, computer software programs, databases and trade secrets ("Developments") that I make, conceive, first reduce to practice, or create, either alone or jointly with others while I am employed by Schwab, and that (a) result from any work performed by me for Schwab, whether or not in the normal course of my employment of during normal business hours; (b) reasonably relate to the actual or anticipated business, services, products, research or development of Schwab; or © are developed with the use of Schwab time, equipment, supplies, Confidential Information or facilities.

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5. I agree that I will promptly return to Schwab, upon its request or, in any event, immediately upon separation from my employment for any reason, all documents and materials that contain, refer to, or relate in any way to any Confidential Information as well as any other Schwab property in my possession or control including but not limited to electronic and telephonic equipment, credit cards, security badges, and passwords.

6. I further agree that for a period of eighteen (18) months after my employment with Schwab ceases, I will not, directly or indirectly, or on behalf of any third party: (a) solicit, induce or attempt to solicit or

addresses, telephone numbers and/or social security numbers), any account, personal, business, financial and other information pertaining to such customers, and prospective customers, and customer and prospective customer lists in any form;

d. account, personal or financial information pertaining to current and former employees of Schwab, business, financial, and other information pertaining to Schwab's vendors and independent contractors, and any lists of employees, vendors and/or independent contractors;

e. all Developments, as defined in Paragraph 3 below, and all information which relates to Developments; and/or

f. all information which Schwab has a legal obligation to treat as confidential, or which Schwab treats as proprietary or designates as confidential or for internal use only, whether or not owned or developed by Schwab. PI Hearing Exhibit 4.

induce any existing and/or prospective customers I serviced (directly or indirectly) or whose identity I learned during my employment with Schwab to divert, transfer or otherwise take away business from Schwab; (b) sell or offer to sell any security, retirement, insurance or annuity product or related service to any customer or prospective customer of Schwab I serviced (directly or indirectly) or whose identity I learned during my employment with Schwab; or © solicit, induce or attempt to solicit or induce any employee, vendor or independent contractor of, or consultant to, Schwab, to leave his or her employment or assignment. Also, I understand that nothing in Paragraph 6 limits my absolute obligation under Paragraph 2 to never use Confidential Information to solicit Schwab customers or prospective customers, or for any other purpose, at any time after my employment with Schwab ceases.

7. I agree that I will disclose my obligations under this Agreement to any prospective or future employer and that my obligations under this Agreement will survive the separation from my employment with Schwab regardless of the reason for the separation.

8. I understand and agree that any breach of this Agreement may subject me to disciplinary action, up to and including termination of my employment (if I am still employed at Schwab), and may cause irreparable injury to Schwab that cannot be adequately compensated by money damages and/or is incapable of precise calculation. If I breach this Agreement, I agree that Schwab has the right to seek equitable relief (including injunctive relief and specific performance) in addition to monetary damages and any other legal remedies which may be available. I consent to Schwab's obtaining equitable relief in the most expeditious forum to preserve the status quo pending resolution of any dispute relating to this Agreement. PI Hearing Exhibit 4.

As stated by the Honorable Anita B. Brody, in order for a restrictive covenant, such as the instant Agreements, to be enforceable in Pennsylvania⁶, the covenant must be: "(1) ancillary to the taking of employment; (2) supported by adequate consideration; (3) reasonably limited in time and

⁶The 1999 Agreement states that the terms of the Agreement and any disputes arising out of it shall be governed by, and construed in accordance with, the laws of the state in which Karpiak was last employed by Schwab. See PI Hearing Exhibit 4, ¶ 9.

geographic scope; and (4) reasonably designed to safeguard a legitimate interest of the former employer”. *National Business Services, Inc. v. Wright*, 2 F.Supp.2d 701, 707 (E.D. Pa. 1998). *See also Overseas Strategic Consulting, Ltd. v. Larkins*, 2001 WL 1198661 *4 (E.D.Pa. October 10, 2001). “In Pennsylvania, agreements not to compete are ancillary to the employment contract if signed within a reasonable time of the commencement of work.” *Id.* Such was the case herein. Karpiak signed the 1999 Agreement on July 22, 1999, and he commenced his employment with Schwab the following month. Similarly, the subsequent Agreements Karpiak signed were ancillary to his acquisition of new positions in the Company, with new benefits. Furthermore, because these Agreements between Schwab and Karpiak were part of the formation of their employment relationship, they are supported by adequate consideration⁷ as a matter of law. *See National Business Services, Inc.*, 2 F.Supp.2d at 707-708.

The Agreements have no geographic limitations. They seek only to prevent Karpiak from soliciting business from his Schwab contacts., and for that purpose, the restrictive covenant is limited in time to eighteen (18) months after Karpiak’s employment with Schwab ceased. It relates only to the customers Karpiak serviced or whose identity he learned during his employment with Schwab. *See* PI Hearing Exhibit 4, ¶ 6. Karpiak may continue working in the securities industry

⁷Even if the Agreements were not supported by consideration, they would still be enforceable. As stated by the Honorable Stewart Dalzell:

The Pennsylvania General Assembly has decided that “[a] written release or promise, hereafter made and signed by the person releasing or promising, shall not be invalid or unenforceable for lack of consideration if the writing also contains an additional express statement, in any form of language, that the signer intends to be legally bound”. 33 Pa.C.S.A. § 6. *QVC, Inc. v. Tauman*, 1998 WL 156982 *4 (E.D.Pa, April 3, 1998).

See also, QVC, Inc. v. Starad, Inc., 2005 WL 742500 *4 (E.D.Pa., March 31, 2005). Both the 2004 and 2006 Agreements contain expressions of intent to be bound by injunctive relief if a Court or Arbitration Panel finds that injunctive relief is appropriate to enforce any provision of the Agreements. *See* PI Hearing Exhibits 7, ¶ 11; 8, ¶ 12.

wherever he chooses. Similar restrictions have been enforced by this Court under nearly identical circumstances. *See Merrill Lynch v. Masri*, 1996 WL 283644 (E.D.Pa. May 28, 1996); *Merrill Lynch v. Napolitano*, 85 F.Supp.2d 491 (E.D.Pa. 2000). Its duration and geographic scope is not unreasonable.

Finally, I look to whether or not the Agreements are reasonably designed to safeguard a legitimate interest of Schwab.⁸ “Trade secrets of an employer, customer goodwill and specialized training and skills are all legitimate interests protectable through a general restrictive covenant” (internal quotations omitted). *Vector Security, Inc. v. Stewart*, 88 F.Supp.2d 395, 400 (E.D.Pa. 2000). *See also Fisher Bioservices, Inc. v. Bilcare, Inc.*, 2006 WL 1517382 *13 (E.D.Pa. May 31, 2006). (“Customer goodwill and confidential business information have each been recognized as legitimate business interests that may be afforded protection by a restrictive covenant.”) Karpiak had wide-ranging contact with Schwab’s customers and potential customers over a significant period of time While there, he had access to confidential information regarding these customers and prospective customers. Schwab has a legitimate interest in protecting its investments and in

⁸Defendants argue that the relief sought by Schwab “would be contrary to the letter and the spirit of the NASD rules”. Defendants’ Memorandum in Opposition at 12. The NASD has issued IM 2110-7, which reads in pertinent part:

It shall be inconsistent with just and equitable principles of trade for a member or person associated with a member to interfere with a customer’s request to transfer his or her account in connection with the change in employment of the customer’s registered representative, provided that the account is not subject to any lien for monies owed by the customer or other bona fide claim. Prohibited interference includes, but is not limited to, seeking a judicial order or decree that would bar or restrict the submission, delivery or acceptance of a written request from a customer to transfer his or her account.

I note, however, that “The Interpretive Material does not affect the operation of Rule 11870 (governing customer account transfers), nor does it affect the ability of member firms to use employment agreements to prevent former representatives from soliciting firm customers. Members are not prevented from pursuing other remedies they may have arising from employment disputes with former registered representatives. The Interpretive Material is limited to restricting a member from interfering with a customer’s right to transfer his or account, once the customer has asked the firm to move the account”. *Id.*, Exhibit D.

IM2110-7 does not apply to the instant matter.

maintaining confidential client information and client trust.

I find the Agreements to be ancillary to Karpiak's employment by Schwab, supported by consideration, and reasonably necessary for the protection of Schwab. There is no geographic limitation, and the eighteen (18) months time frame for non-solicitation is reasonable in duration.

2. Breach of Contract

Having found that the Agreement between Schwab and Karpiak is enforceable, I look to whether or not Schwab has a likelihood of success in establishing the Agreement's breach by Karpiak. As a condition of his initial employment with Schwab, Karpiak signed the 1999 Agreement, and he signed three subsequent Agreements in 2002, 2004, and 2006 as his employment and status with the Company progressed. Each Agreement contains provisions that preclude Karpiak from soliciting or inducing, or attempting to solicit or induce Schwab's customers to transfer their accounts from Schwab.

Karpiak admits that he used and disclosed Schwab's confidential customer information. Prior to his resignation from Schwab, he prepared the aforementioned Customer List which consisted of customer names and addresses, as well as other account information, and he submitted that information to RBC Dain. The Customer List was used by Karpiak to prepare a letter which was sent to Schwab's customers along with partially completed account transfer forms. He also telephoned approximately ninety Schwab clients. Topics of these calls included the "value added" by RBC Dain and Schwab's alleged deficiencies.

A multitude of evidence leads me to believe that Karpiak violated the terms of his Agreements not to solicit Schwab's clients, and testimony reveals that he used and disclosed Schwab's confidential customer information.

3. Misappropriation of Trade Secrets

Schwab also claims that Karpiak misappropriated its trade secret customer list and information. Pennsylvania courts will grant injunctive relief for the misappropriation of a trade secret when a plaintiff demonstrates:

(1) that the information constitutes a trade secret; (2) that it was of value to the employer and important in the conduct of its business; (3) that by reason of discovery or ownership the employer had the right to the use and enjoyment of the secret; and (4) that the secret was communicated to the [employee] while he was employed in a position of trust and confidence under such circumstances as to make it inequitable and unjust for him to disclose it to others, or to make use of it himself, to the prejudice of his employer. *Air Prods. And Chem., Inc. v. Inter-Chemical Ltd.*, 2003 WL 22917491 *9 (E.D.Pa. December 2, 2003).

Defendants assert that customer names, addresses and telephone numbers are not trade secrets. In the 1999 Agreement, however, Karpiak expressly agreed that “the identities of Schwab customers and prospective customers (including, but not limited to, names, addresses, telephone numbers and/or social security numbers), any account, personal, business, financial and other information pertaining to such customers, and prospective customers, and customer and prospective customer lists in any form” are confidential and/or proprietary to Schwab. PI Hearing Exhibit 4 ¶1.c. Again in 2002, he agreed that “the identities of Schwab customers and prospective customers (including but not limited to, names, addresses, telephone numbers and/or social security numbers), any account, personal, business, financial and other information pertaining to such customers, and prospective customers, and customer and prospective customer lists in any form, including, but not limited to assets and obligations carried in an account by a customer, customer positions and/or account valuation” were confidential and/or proprietary to, and/or trade secrets of Schwab. PI

Hearing Exhibit 6 ¶ 1.d. The 2004 and 2006 Agreements likewise contain such protections. *See* PI Hearing Exhibits 7 ¶ 1(a)(iii), 8 ¶ 1.a.iii. Based upon the present record, therefore, I find that Schwab is likely to succeed in showing that Karpiak wrongfully removed names, addresses, and telephone numbers from the Schwab office and disclosed this information to employees of RBC Dain. Schwab has shown far more than a reasonable probability of success on the merits of this claim.

B. Irreparable Harm

Schwab asserts that it will suffer irreparable harm in the absence of injunctive relief in that damages from the loss of its customers is incalculable. Defendants, on the other hand, state that any damages from customer movement from Schwab to RBC Dain proven to be the result of solicitation by Karpiak, if any, could be readily calculated from customer account records and expert testimony, providing Schwab with an adequate remedy at law.

However, there is support in case law for Schwab's position. As found in *Merrill Lynch v. Masri*, 1996 WL 283644 at *4:

[Plaintiff] will suffer irreparable harm if Defendant is allowed to convert the property of [Plaintiff] to his own personal use and benefit and to the benefit of [his new company], and to solicit [Plaintiff] customers. *See e.g., John G. Bryant Co. v. Sling Testing & Repair, Inc.*, 369 A.2d 1164, 1167 (Pa. 1977) (acknowledging that covenants not to compete are designed "to prevent more than just the sales that might result by the prohibited contract but also . . . to prevent a disturbance in the relationship that has been established between [the former employer] and their accounts through prior dealings," and holding that "unwarranted interference with customer relationships . . . is unascertainable and not capable of being fully compensated by money damages."); *Records [v. Comprehensive Management, Inc.]*, 525 A.2d at 436 ("[T]he injury caused by violation of a covenant not to compete is particularly difficult to quantify for damages purposes.").

As the Court noted in *Merrill Lynch v. Rodger*, 75 F.Supp.2d 375, 381 (M.D.Pa. 1999), “[w]ere defendants permitted by law to exploit the clientele of their former employers, every investment that reasonably flowed from the exploitation should be included in the damages award. How such a figure could be arrived at escapes us.” *See also Merrill Lynch v. Napolitano*, 85 F.Supp.2d at 497.

Karpiak took information pertaining to Schwab’s clients, and he admits that he intends to continue calling clients whom he previously serviced at Schwab. Clearly, this admitted continuing violation is incapable of adequate protection by monetary damages, and I am satisfied that Schwab has demonstrated that it will suffer irreparable harm in the absence of injunctive relief.

C. Harm to Defendants

I next consider whether the harm, if any, to Defendants in the face of injunctive relief outweighs the benefits to Schwab if an injunction is granted. According to Defendants, it does.

In considering the harm Defendants might suffer should injunctive relief be granted, “the district court must undertake to balance the hardships to the respective parties. The court must ensure that the issuance of an injunction would not harm the infringer more than a denial would harm the mark’s owner”. *Pappan Enterprises, Inc. v. Hardee’s Food Systems, Inc.*, 143 F.3d 800, 805 (3d Cir. 1998) (internal quotations omitted); *see also Merrill Lynch v. Rodger*, 75 F. Supp.2d 375 (M.D.Pa. 1999).

It must also be pointed out that an injunction would not prevent RBC Dain and Karpiak from engaging in their business. An injunction simply would prohibit Karpiak from soliciting certain Schwab clients and from accepting business from any client who he has wrongfully solicited until the arbitrators decide the issue of permanent injunctive relief, which would occur within a relatively short period of time.

Furthermore, any harm to Karpiak would be self-inflicted; he surely knew that Schwab would seek to enforce its employment contract, yet he chose to breach it nonetheless. “The self-inflicted nature of any harm suffered by the wrongdoer [Karpiak] weighs heavily in favor of granting injunctive relief.” *Merrill Lynch v. Napolitano*, 85 F.Supp.2d at 498. Further, Karpiak is fully able to pursue his life’s work with RBC Dain, as long as he does not solicit Schwab’s customers for the remainder of the Agreements’ eighteen month period.

The circumstances that surround this matter easily outweigh any injury to Defendants.

D. The Public Interest

Schwab argues that an injunction would serve the public interest in the enforcement of reasonable contracts and the protection of trade secrets.

Unless the court enforces the terms of the contracts entered into by the sophisticated parties and entities in this case, the court will be undermining the legitimate business expectations not only of the parties here, but of all contracting parties. It is the knowledge that valid and enforceable contractual agreements will be enforced in courts of competent jurisdiction which allows our competitive marketplace to thrive. Without such a rule of law, parties could not rely on contracts to conduct their affairs. *Merrill Lynch v. Napolitano*, 85 F.Supp.2d at 499.

By signing the 1999, 2002, 2004, and 2006 Agreements, Karpiak expressly agreed that he would not solicit Schwab clients for a period of eighteen months after his departure from that Company. Although he asserts that his communications with Schwab clients immediately after his resignation from Schwab amounted to “notification” rather than “solicitation”, I find that the arbitrators probably will conclude that his actions encouraged these clients to follow him to RBC Dain. In addition, I find that the arbitrators probably will conclude that the disclosure of names, addresses, and telephone numbers of Schwab clients to RBC Dain also constituted a breach of

contract.

The issuance of a preliminary injunction herein, therefore, will serve the compelling public interests of enforcing valid contractual provisions and protecting business investments, as well as confidential customer information.

RECOMMENDATION

Consistent with the above discussion, it is recommended that Schwab's motion for preliminary injunction be granted.

Schwab has established that it has a reasonable probability of success on the merits and that it will be irreparably injured if preliminary relief is not granted. Additionally, the harm to Schwab from the denial of preliminary relief greatly outweighs the inconvenience to Karpiak of its issuance, and the public interest will be best served by a preliminary injunction.⁹

BY THE COURT:

S/M. FAITH ANGELL
M. FAITH ANGELL,
UNITED STATES MAGISTRATE JUDGE

⁹Defendants assert that a preliminary injunction should not be granted because, though Karpiak resigned in April, 2006, Schwab did not file the instant Complaint until September, 2006. The record reveals that Schwab was not idle during this time period. It was in contact with RBC Dain repeatedly concerning Karpiak's behavior.

They also take issue with the voice mail message left by Schwab employee Erik Sermarini in which unflattering comments were made about Karpiak. A single voice mail made by a frustrated employee is not sufficient to prevent injunctive relief in light of the continuing activities of Karpiak.

These arguments are meritless.

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

CHARLES SCHWAB & CO., INC.	:	CIVIL ACTION
	:	
v.	:	
	:	
SCOTT KARPIAK	:	NO. 06-4010
RBC DAIN RAUSCHER, INC.	:	

ORDER

AND NOW, this day of , 2006, upon consideration of the pleadings and the record herein, and after review of the Report and Recommendation of M. Faith Angell, United States Magistrate Judge, it is hereby **ORDERED** that:

1. The Report and Recommendation is **APPROVED AND ADOPTED**.
2. Plaintiff Charles Schwab & Co., Inc.'s Motion for a Preliminary Injunction (Docket Entry No. 4) is **GRANTED**.
3. A preliminary injunction be issued immediately, enjoining Defendant Scott Karpiak, directly or indirectly, and whether alone or in concert with others, including any officer, agent, employee and/or representative of Defendant RBC Dain Rauscher, Inc., from:
 - (a) soliciting, inducing or attempting to solicit or induce any existing and/or prospective customers that Karpiak serviced (directly or indirectly), or whose identity he learned during his employment with Schwab to divert, transfer or otherwise take away business from Schwab (excluding members of Karpiak's immediate family); and
 - (b) using, disclosing, or transmitting for any purpose, including the solicitation of business, the information contained in the records of Schwab, including but not limited to, the names, addresses, and financial information of the Customers.
 - © destroying, erasing or otherwise making unavailable for further proceedings in this matter, or in any arbitration proceeding between the parties, any records or documents (including data or information maintained in computer media) in Defendants' possession or control which were obtained from or contain information derived from any Schwab records, which pertain to the Customers, or which relate to any of the events alleged in the Complaint in this action.
4. Defendants, and anyone acting in concert or participation with Defendants, including Defendants' counsel and any agent, employee, officer or representative of RBC Dain or any of its subsidiaries or affiliates, are further ordered to return to Schwab's counsel any and all records or information pertaining to Schwab's clients or its business, and/or which were obtained by Karpiak as a result of his employment with Schwab, whether in original, copies, handwritten or any other

form, and purge any such information from their possession, custody, or control, within 48 hours of notice to Defendants or their counsel of the terms of the Court's Order; provided, however, that any information in computerized or electronic form (including but not limited to personal computers, laptop computers, Blackberries, Treos, Palm Pilots, mobile telephones and any other device in, or on, which data can be electronically stored) shall be provided by Defendants to their counsel within 48 hours of notice to Defendants or their counsel of the terms of the Court's Order, and Defendants' counsel shall preserve the integrity of such devices and data and immediately make any and all such devices and data available for inspection and duplication by Plaintiff's counsel and/or computer forensic consultants.

5. Pursuant to the requirements of sections 3 and 4 of the Federal Arbitration Act, 9 U.S.C. §§ 3-4, the parties are directed to proceed toward an expedited arbitration hearing on the merits before a duly appointed panel of arbitrators in accordance with Rule 10335(B) of the National Association of Securities Dealers Code of Arbitration Procedure.

BY THE COURT:

LOUIS H. POLLAK, J.